



Parliamentary pay, pensions and allowances

**Government memorandum
to Sir John Baker's review
of the mechanism for
determining the pay of
Members of Parliament**



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**Presented to Parliament
by the Lord Privy Seal, Leader of the House of Commons
and Minister for Women and Equality
by Command of Her Majesty
June 2008**

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PARLIAMENTARY PAY, PENSIONS AND ALLOWANCES

GOVERNMENT MEMORANDUM TO SIR JOHN BAKER'S REVIEW OF THE MECHANISM FOR DETERMINING THE PAY OF MEMBERS OF PARLIAMENT

The Government invited Sir John Baker to undertake a review and recommend a mechanism for determining MPs' pay that would obviate the need for MPs to vote on their pay and would gain the confidence of MPs, Government and the public. This is a memorandum from the Government setting out its views. It:

- **Looks at the starting point of MPs' pay;**
- **The comparator;**
- **The review mechanism; and**
- **Pensions.**

Background

1. Periodically, in respect of parliamentary pay, pensions and allowances, the Government has submitted evidence to the Senior Salaries Review Body (SSRB). In forming its views, the SSRB considers evidence from both Government and other stakeholders, including MPs, and receives advice from relevant experts and/or management consultants (Pricewaterhouse Cooper most recently).
2. The SSRB makes recommendations to the Prime Minister. Having considered its recommendations, the Government publishes the report and sets out its views in motions for decisions by the House. The outcome of the debate and votes have direct legal impact.
3. In July 2006, the Prime Minister wrote to the Chairman of the SSRB providing a remit for the next triennial review of parliamentary pay, pensions and allowances. SSRB reported to the Prime Minister in July 2007 and the subsequent debate in the House of Commons was held on 24 January 2008. The Government's motions:
 - outlined its policy on pay for the financial year 2007/8;
 - agreed with the recommendations of the SSRB on the Parliamentary Pension Scheme;
 - invited the House to endorse the establishment of the Baker Review (see Annex A), which the Prime Minister announced on 16 January; and
 - referred consideration of SSRB's recommendations on allowances to the House of Commons Members' Estimates Committee (MEC).
4. The House agreed all the motions without amendment.
5. There was broad agreement within the House that the process of MPs voting on their own pay award puts Members in a difficult position and does not command public confidence.
6. The new arrangements resulting from the Baker Review should be sustainable, and have the effect that, in future, MPs would not be required to vote on their own pay; that Government would no longer be involved in the decision making process; and that the revised system must carry the confidence of the public and the House.

7. It should be noted that the arrangements pertaining until this year in **principle** already obviated the need for votes by MPs, by use of a linkage formula for pay. However, the formula in place since 1996 (based on a particular link with the Senior Civil Service [SCS]) did not preclude votes. MPs voted on their own pay in 2001, and again in 2008, as the SCS pay link would have delivered unintended consequences for MPs. There was no vote on pay after the SSRB 2004 report because the SSRB did not propose any change.

Level of MPs' pay

- The Written Ministerial Statement (16 January 2008) stated that “this debate and decision will take place in the context of the current public sector pay policy”.
- The House, in the debate on 24 January 2008, made no decision on pay from 1 April 2007 onwards.

8. “*The Governance of Britain*”, committed the Government to a strengthened Parliament with more ability to hold the Executive to account through a rebalancing of power between Parliament and the Government.

9. In 1911, Lloyd George said that democracy demands that MPs' remuneration is adequate to give voters their choice of representatives, so that on the one hand those without prior wealth are not excluded and on the other, pay does not become the main attraction of the job. The Government believes that MPs' pay should be at a level that enables the people to be represented effectively and thereby contributes to a strong House leading to better government. It is also important that the remuneration of MPs commands public acceptability.

10. In its last report the SSRB found that the absolute level of MPs' pay had changed from 88% to 86% of public sector comparator roles (for example; head teachers, senior police officers). In light of these changes, SSRB concluded that there should be some “catching up” for MPs' pay and recommended a £1,950 increase spread over three years, in addition to increases arising from linking MPs' pay increases to the Senior Civil Service. In effect, SSRB judged that the right level of MPs' pay from 2008 should be £63,770 or, broadly, at the 2004 relativity with public sector comparators.

11. In light of its public sector pay policy and approach to other groups of public sector employees, the Government did not accept the proposal for a catch up in 2007/08. On 24th January the House of Commons concurred with that view. As a result, the current level of MPs' pay is £61,820 for 2007/08 – as was recommended by SSRB for 2007/08. There is no mechanism – linkage or catch up – in place to increase MPs' pay for 2008/09 and beyond.

12. It took this decision in order to support the maintenance of macroeconomic stability and low and stable inflation, and in view of the pressure a catch-up would have on settlements.

It is the Government's position that the current *level* of MPs' pay – £61,820 – should be adopted as the base line for future annual movements beginning April 2008.

Future increases in MPs' pay

15. Establishing a sustainable and predictable mechanism for increasing MPs' pay each year is necessary to obviate the need for MPs to debate and vote on their pay. A future mechanism needs to be consistent with wider public sector pay policy – MPs should set the example for public sector pay restraint at a time of economic uncertainty.

16. There is a range of potential linkage mechanisms that could be used to increase MPs' pay each year. They fall into two broad categories:

- link to general pay movements, for example, average earnings or headline pay settlements; or
- link to specific workforce group, for example, the Senior Civil Service, or a "basket" of workforce groups.

17. The Government's view is that the correct workforce comparator for determining MPs pay uplifts is SCS pay (see below). This view is supported by the SSRB who have already reported that the SCS are the most appropriate workforce. Periodic reviews once each Parliament would ensure the link continues to work.

18. The Government's approach to wider public sector pay policy rests on looking at workforces on a case-by-case basis, delivering settlements that are consistent with achievement of the CPI inflation target of 2%, are affordable, provide value for money and reflect the labour market fundamentals of the workforce concerned. Given the signalling position of MPs as a workforce, any departure from this – for instance, through use of an earnings index for MPs' pay – would have the potential seriously to undermine this approach for other groups.

19. A link to an index of average public sector earnings would have a number of disadvantages. The average public sector earnings measure includes the full spectrum of public sector workforces – manual, professional, skilled and unskilled. As a result, the pay of MPs would be linked to some groups that are completely inappropriate comparators.

20. The average public sector earnings measure includes the effect of public sector workers receiving progression payments. However, large numbers of public sector workers (over 20% nurses and around 40% of prison officers) are at the top of their pay scales and receive no progression payments. Linking MPs pay to average earnings would mean they receive greater total annual increases in pay than large numbers of individual public sector workers. Unlike other individuals they would never reach a ceiling after which larger increases would stop.

21. The average public sector earnings measure will vary as a result of workforce reorganisation and changes in the skill levels of the public sector as whole. It is not appropriate for MPs pay to be affected, positively or negatively, by such changes. For example, over the next ten years the public sector might require fewer low skilled workers and more individuals with a professional qualification. It will have to pay more to recruit staff of such calibre. The job of MPs will not necessarily have changed in the same way and so this should not result in an increase in their pay.

22. In the rest of the public sector, Government and employers are moving away from automatic progression towards progression linked to performance and responsibility. This ensures reward for talent and productivity rather than length of service. In contrast, a link to average earnings would mean that all MPs receive the benefit of progression payments awarded for good performance by individuals in other parts of the public sector. The Government does not support a link to public sector average earnings increases.

23. MPs' pay has been linked to the SCS for some years. Recently, this link has resulted in relatively modest increases for MPs – 0.66% in 2007/08 and, we forecast, 0.28% in 2008/09 (if the linkage with the SCS paybands had been maintained). These small annual increases arise from the specifics of the linkage mechanism – which was based on changes in SCS pay *ranges* – and the application to MPs' pay of reward policies tailored to the specific and different needs of the SCS. For this reason, the Government believes a link to one group is the best approach and that an alternative link to movements in the SCS pay bands should be established and there should be provision for the operation of the linkage mechanism for determining MPs' pay to be reviewed by an independent body from time to time.

24. The Government considers that a link with the Senior Civil Service is appropriate and that it can be made on a sustainable basis. Of the options, a link based on “new money” in the SCS pay system would provide the best approach; specifically this should include increase to the SCS bonus pot but not “recyclables”. This would be the **increase to paybill per head**. Such an increase mechanism would maintain a broad linkage to growth in SCS salaries while smoothing out the extreme fluctuations that could be caused by linking directly to SCS average salaries or the changes in the SCS paybill. A link to average SCS salaries could be distorted by changes in the average pay band of the SCS or by changes in the profiles of staff leaving/joining the SCS. A link to changes in the SCS paybill could lead to unexpected fluctuations due to changes in the size of the SCS population. A rise in the size of the SCS would lead to faster pay growth for MPs while a drop in numbers would lead to slower than expected growth or a pay freeze. Excluding ‘recyclables’ would ensure that MPs pay will retain its relativity to that of the SCS as their inclusion would lead to faster growth in MPs pay than growth in the average SCS salary.

The Government's proposal on the *increase* in MPs' pay is to adopt a linkage to the paybill per head increase for SCS.

Review body mechanism

- **The Written Ministerial Statement (16 January 2008) stated that MPs should be ‘explicitly removed from the process of voting on and determining their own pay and pensions’.**
- **The House resolved on 24 January 2008 that ‘the system for determining the salaries of Members of Parliament should be reviewed, in particular with a view to removing the need for final decisions on salaries to be subject to approval by this House’.**
- **The Terms of Reference for the Baker Review asked for recommendations for a ‘mechanism for independently determining the pay and pensions of Members of Parliament which does not involve MPs voting on their own pay’ and to ‘consider the membership and remit of any independent body that may be part of the pay setting process’.**
- **The Leader of the House of Commons said in the debate on 24th January that “we should not decide on our own pay and pensions” and that “we should not vote on our own pay increases at all; that should be decided on independently”.**

25. Agreeing a linkage for the next few years does not in itself achieve the objective of taking MPs out of the decision-taking process. It would not provide for what will need to happen if the linkage system fails, for example because of restructuring within the chosen comparator workforce. To achieve this further step, it will be necessary, in addition to a linkage or formula for the immediate future, for an independent decision-taking body to have the power to review operation of the linkage and report on the technical adjustments necessary should the mechanism cease to be appropriate.

26. The approach taken to setting the pay of the legislature varies across Commonwealth, EU and G7 countries. There is no independent body involved at all in the decision making process in Japan, Italy or Spain. The Netherlands and France use a system where the legislature votes on pay increases within a set budget to cover pay and allowances. New Zealand and Sweden set remuneration levels through an annual review by an independent committee without any involvement by MPs or the equivalents. And Canada and Australia use an automatic uprating mechanism, with Australian MPs retaining the right to disallow the payment of the increase.

27. The Government would welcome fresh consideration around the benefits of the New Zealand model. Parliamentarians' salaries and allowances are determined annually by the Remuneration Authority. The Authority uses public and private comparators established by survey and job evaluation and look to maintain consistency and appropriate relativities across the salaries paid to parliamentarians, the executive, the judiciary, and the public service. Current legislative provisions are intended to keep the Government at arm's length from the setting of pay and pensions; although the Authority can receive submissions from stakeholders, including both the Government and MPs, the final decision (i.e. the determination) is the Authority's responsibility.

28. In the UK, there has been a review process for the last 30 years, most recently undertaken by the SSRB, to review parliamentary pay, pensions and allowances alongside its remit to cover SCS, senior military, judiciary and NHS senior managers. There are other pay review bodies that cover other public sector groups, for example, teachers, prison officers, doctors and dentists.

29. SSRB members are public appointments made by the Prime Minister and selected for their experience and professional authority in labour market economics, business leadership and pay. All pay review bodies are supported by an independent body linked to BERR: the Office of Manpower Economics.

30. Whatever link is adopted to increase MP's pay, the Government believes it would be important for there to be provision for a review of the operation of the linkage mechanism from time to time. The Government believes the frequency of such a review should be no more than once each Parliament. The Government would not expect to have the ability to over rule the recommendations stemming from these reviews.

- **In light of these considerations, it is *recommended* that parliamentary pay should be delegated to an independent body.**

Potential pay issues arising from debate on pensions

Pension

31. Government accepted SSRB recommendations, as did the House on 24 January, regarding changes to the pension arrangements for MPs, covering:

- retained benefits – subject to offsetting cost savings, it is envisaged that this can be implemented in the near term;
- cost sharing between MPs and Exchequer, and cost capping of the Exchequer contribution to 20% of pay bill – this would bring the MPs' pension scheme in line with all other public sector pension schemes; and,
- in the event the Exchequer contribution reaches 20%, to undertake a fundamental review of the scheme – recent Government Actuary Department (GAD) advice suggests this position has been reached.

32. No financial saving would necessarily be achieved from changing from a final salary scheme. Given the near-term possibility that the Exchequer contribution to the pension scheme reaching 20%, the Government will be coming forward with proposals for the proposed fundamental review. It is to be noted that although the Baker Review's terms of reference include pensions, this is solely to ensure that any pension consequences of the recommendations on pay can be considered and addressed. If the Review adopted the recommendations outlined in this note, there would be no meaningful consequences for pensions.

Against this background, it is the Government's position on pensions that the Baker Review ought not to consider any change to the pension scheme.

**Leader of the House of Commons
May 2008**

ANNEX A: SSRB PAY MOTIONS FOR DEBATE 24 JANUARY 2008

1. MEMBERS' SALARIES (EXPRESSION OF OPINION)

That, in the opinion of this House, the system for determining the salaries of Members of Parliament should be reviewed, in particular with a view to removing the need for final decisions on salaries to be subject to approval by this House; and that—

- (1) the yearly rate for salaries of Members of this House, including the additional salaries of chairmen of select and general committees, should be increased (in addition to the increase of 0.66% provided for in respect of the year starting with 1st April 2007 under the resolution of 10th July 1996 relating to Members' Salaries (No.2))—
 - (a) with effect from 1st April 2007, by 0.84% of the rate as it stood on 31st March 2007, and
 - (b) with effect from 1st November 2007, by a further 1.06% of the rate as it stood on 31st March 2007;
- (2) from 31st March 2008, the resolution of 10th July 1996 relating to Members Salaries (No.2) should cease to have effect.

2. MEMBERS' SALARIES

Queen's Recommendation signified

That the following provision shall be made with respect to the salaries of Members of this House—

- (1) the yearly rate for salaries of Members of this House, including the additional salaries of chairmen of select and general committees, shall be increased (in addition to the increase of 0.66% provided for in respect of the year starting with 1st April 2007 under the resolution of 10th July 1996 relating to Members' Salaries (No.2))—
 - (a) with effect from 1st April 2007, by 0.84% of the rate as it stood on 31st March 2007, and
 - (b) with effect from 1st November 2007, by a further 1.06% of the rate as it stood on 31st March 2007;
- (2) from 31st March 2008, the resolution of 10th July 1996 relating to Members Salaries (No.2) shall cease to have effect.

3. PARLIAMENTARY PENSIONS

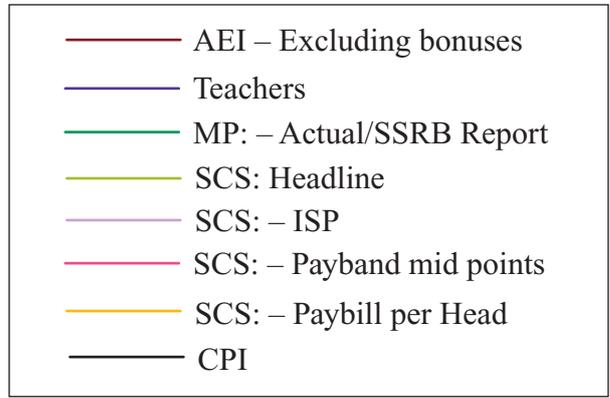
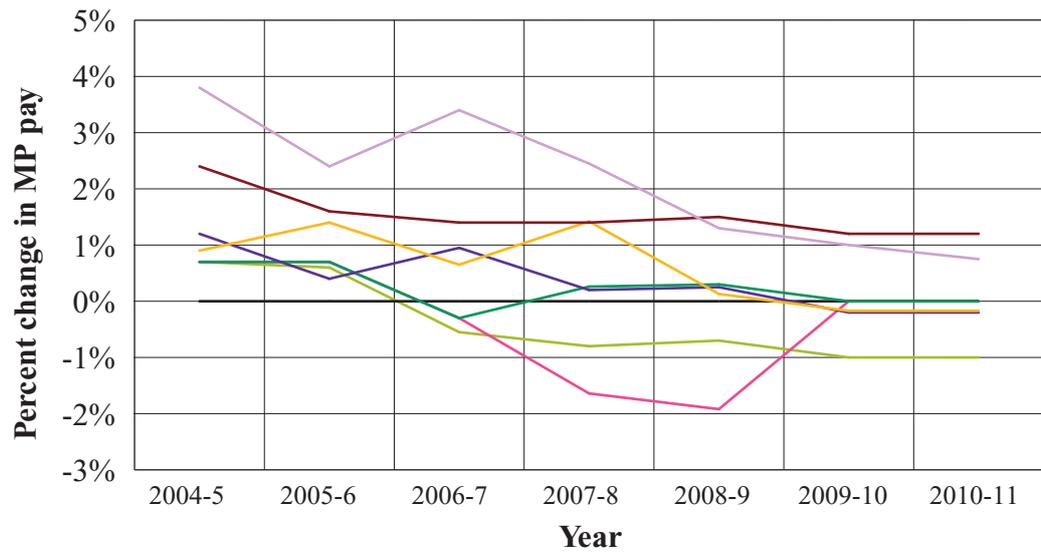
That this House endorses in principle Recommendations 7, 8 and 9 of the report of the Review Body on Senior Salaries on Parliamentary pay, pensions and allowances (Cm 6258-I), a copy of which was laid before this House on 16th January, relating to the Parliamentary Pension Scheme, and endorses the change to the Scheme rules outlined in Recommendation 6 if it can be implemented in conjunction with changes identified by the Trustees which produce sufficient offsetting savings to be cost neutral.

4. MEMBERS' ALLOWANCES

That this House notes the recommendations made in Chapter 5 of the report of the Review Body on Senior Salaries on Parliamentary pay, pensions and allowances (Cm 6258-I), a copy of which was laid before this House on 16th January; and is of the opinion that—

- (1) recommendations 20-22 relating to an increase in staffing allowance should be implemented, subject to the decisions of the Members Estimate Committee with regard to their timing and administration;
- (2) recommendations 17-19, 23-28, 30 and 31 (relating to reimbursement of unreceipted expenditure, audit, central funding of constituency office costs, Incidental Expenses Provision, partners' travel, Communications Allowance, Resettlement Grant, Winding-up Allowance, and nomenclature of allowances) be referred to the Members Estimate Committee for further consideration following consultation with the Advisory Panel on Members Allowances.

These Motions were agreed by the House without amendment on 24 January 2008.



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